

MORENCI AREA SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required and additional
supplementary information)

YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Morenci Area Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Morenci Area Schools, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Morenci Area Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major funds of Morenci Area Schools as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morenci Area Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2020 in our consideration of Morenci Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Morenci Area Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morenci Area Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

October 1, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Morenci Area Schools (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary and additional information that presents all the District's revenue and expenditures by program.

FINANCIAL HIGHLIGHTS

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information about the District as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position. In order to measure the District's financial health or net position, we examine the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as reported in the statement of net position. Over time, increases or decreases in the District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results.

It is important to remember that the School District's goal is to provide the best educational opportunities and services possible to Morenci students and not to generate profits as commercial entities do. In keeping, the District must account for the long term stability and continuation of the District by weighing expenditures against the ability to continue existence. The District must keep in check significant decreases in net position over time.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

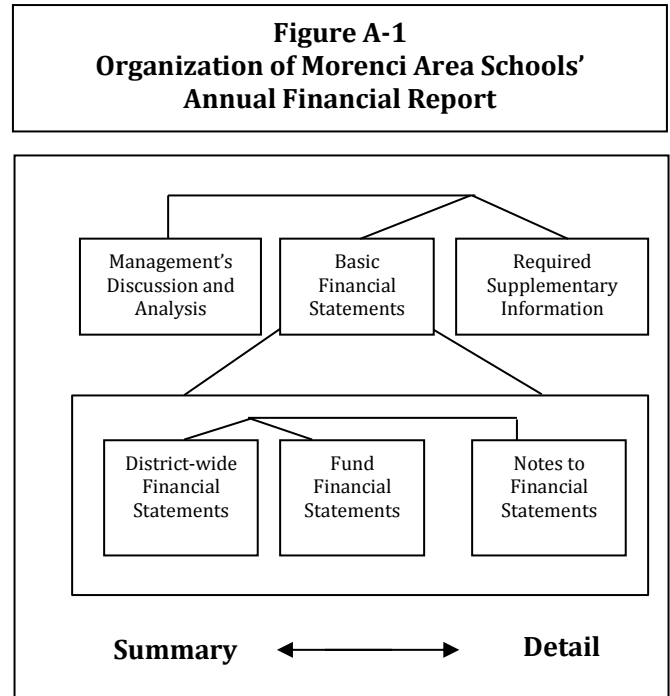
Our financial statements provide insights into the results of this year's operations.

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources, at the close of the most recent fiscal year by (\$10,595,459) (*net position*).
- The District's total net position decreased by \$175,628 from the June 30, 2019 balance of (\$10,419,831).
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,540,647, an increase of \$193,043 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balance for the District's operating fund (general fund) was \$1,064,335 or 16.2% of the total revenues of this operating fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide notes to financial statements.
- The *governmental fund* statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of District-wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as certain student activities monies
Required financial statements	* Statement of net * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Morenci's funds do not currently contain capital assets, although they can
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like food service).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position as of June 30, 2020 totaled (\$10,595,459) which was a decrease over the June 30, 2019 balance of (\$10,419,831).

Table A-3 Morenci Area Schools' Net Position		
	2020	2019
Current and other assets	\$ 2,404,837	\$ 2,269,229
Capital assets	10,568,116	11,081,709
Total assets	12,972,953	13,350,938
Deferred outflows	4,603,663	4,726,821
Long-term liabilities	10,426,020	11,256,013
Other liabilities	864,229	928,912
Net pension liability	12,116,076	11,070,512
Net other postemployment benefits liability	2,556,407	3,035,570
Total liabilities	25,962,732	26,291,007
Deferred inflows	2,209,343	2,206,583
Net position		
Net investment in capital assets	492,009	158,537
Restricted for debt service	101,125	137,762
Unrestricted	(11,188,593)	(10,716,130)
Total net position	\$ (10,595,459)	\$ (10,419,831)

Table A-4
Changes in Morenci Area Schools' Net Position

	2020	2019
Revenues		
Program revenues		
Charges for services	\$ 95,936	\$ 131,691
Operating grants	1,754,248	1,599,093
General revenues		
Property taxes	1,786,386	1,570,934
Investment earnings	8,040	4,842
State aid - unrestricted	4,282,814	4,542,369
Intermediate sources	409,858	349,316
Other	63,784	63,397
Total revenues	8,401,066	8,261,642
Expenses		
Instruction	4,922,686	4,725,355
Support services	2,790,104	2,873,952
Intergovernmental	14,775	28,932
Food services	504,312	455,901
Interest on long-term debt	344,817	366,485
Total expenses	8,576,694	8,450,625
Change in net position	\$ (175,628)	\$ (188,983)

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A established the student foundation grant concept. The foundation grant has increased from \$4,762 per student in 1995 to \$8,111 per student in 2020.
- Student growth in the District has decreased. In fiscal year 1999 state aid membership was 1,147 and in 20 years has decreased by 45.9% to 620. Morenci Area Schools does participate in School of Choice and Open Enrollment to attract new students to the District.
- Many of the District's employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District's total compensation to generally keep pace with the decrease in District revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District as a whole has a combined fund balance of \$1,540,647 compared to \$1,347,604 in 2019. The fund balance increased by \$193,043 during the year. The District was able to control costs, even with an increase in revenue, primarily due to tight budgetary controls. There are debt service funds with a combined net fund balance of \$148,620, and a special revenue fund with a net fund balance of \$327,692. The general fund increased its fund balance by \$99,920, debt service funds decreased their fund balance by \$40,787, and the special revenue fund increased by \$133,910.

The general fund's yearly revenues were about 1.5% more than expenditures and operating transfers.

General Fund and Budget Highlights

The Board of Education passed the original 2019-2020 budget on June 24, 2019 and passed the final budget amendment on June 29, 2020. The Board and Administration monitored enrollment closely once again this year and realized a blended count of 620 students for the 2019-2020 fiscal year. The original budget projected a decrease in fund balance of \$30,000 as of June 30, 2020.

December amendments did not take place during the 2019-2020 fiscal year since there were no significant budgetary changes from the original budget. The Finance Committee and Administration monitored the overall financial stability throughout the year to ensure the District operated at a better than projected budgeted fund balance. The District was anticipating a spring budget amendment, however, those amendments did not take place due to the COVID-19 pandemic.

On March 14, 2020 Governor Gretchen Whitmer issued an Executive Order that mandated public schools close to in person instruction and migrate to remote learning. Because of this closure and migration, the District recognized financial savings in many functions of the general fund budget. The final amendments were from actual revenue and expenditures through June, which showed decreases in many functions of the general fund budget. Pupil services, general administration, operations and maintenance, and transportation were all decreased on the final budget amendment. State and federal funds carried over from the 2018-2019 school year were fully expended in 2019-2020. The District carried over state and federal funds from the 2019-2020 school year into 2020-2021 school year due to COVID-19. The general fund savings recognized, in the final amendment, were from purchases that were budgeted but not made during the 2019-2020 school year.

The final amended budget was to have revenues and other financing sources exceed expenditures and other financing uses by \$49,705. The final results showed that revenues came in \$110,216 less than were anticipated. Expenditures came in \$160,431 less than budgeted in June. The general fund savings recognized in the final amendment to actual were related to the district-wide closures due to the COVID-19 pandemic. The net result after other financing sources and (uses) was a change in fund balance of \$99,920 increasing the total fund balance to \$1,064,335.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a \$50,215 variance. General fund revenues came within 1.63% of final budget. General fund expenditures came within 2.39% of final budgeted amounts. Once again, this year, tight budgetary controls allowed the District to maintain the rising costs in-line with increasing revenue sources. The staff continues to be effective in maintaining actual expenditures when compared to budget.

The District closely monitors enrollment, as it has a direct impact on the general fund budget throughout the school year. While the District realized a slight decrease in students with the February 2019 spring count of 645, the October 2019 fall count showed an even larger decrease of students to 617. This decrease in students was monitored through the end of year enrollment reports as well. As a result of student enrollment decreases, the District projected a budget consistent with 610 students for the 2020-2021 school year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Morenci Area Schools Capital Assets				
	2020			2019
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 351,668	\$ -	\$ 351,668	\$ 351,668
Land improvements	255,164	67,012	188,152	200,910
Buildings and improvements	16,121,561	6,761,332	9,360,229	9,635,831
Furniture and fixtures	4,546,556	4,092,589	453,967	607,067
Transportation equipment	847,736	633,636	214,100	286,233
Total	<u>\$ 22,122,685</u>	<u>\$ 11,554,569</u>	<u>\$ 10,568,116</u>	<u>\$ 11,081,709</u>

The change in the net book value is due to depreciation outpacing capital asset additions during the year.

LONG-TERM DEBT

At year end the District had \$10,426,020 in long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

During the year ended June 30, 2020, the District made principal payments in the amount of \$838,022.

A decrease in compensated absences of \$6,915 was also recorded. The District did not borrow any additional funds from the School Loan Revolving Fund. The School Loan Revolving Fund had interest outstanding of \$172,056 at June 30, 2020.

Table A-6 Morenci Area Schools Outstanding Long-Term Debt		
	2020	2019
General obligation bonds	\$ 9,011,577	\$ 9,868,941
Notes from direct borrowings and direct placements	1,375,519	1,341,233
Compensated absences	38,924	45,839
	<u>\$ 10,426,020</u>	<u>\$ 11,256,013</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The District has budgeted a foundation allowance decrease to \$7,426 per student for the 2020-2021 school year. This is a decrease of \$685 due to the financial uncertainty of COVID-19.
- The District has budgeted a blended pupil count of 610 students, a slight decrease from the 2019-2020 school year.
- Retirement rates have been estimated based upon the FY 2020-2021 employer contribution rate effective October 1, 2020.
- MPSERS cost offset at the 2019-2020 level.
- The District continue to utilize state and federal funds to increase remediation and acceleration of the core curriculum in classrooms; continue and expand Response to Intervention Service for K-12 students, and increase pupil support services for students social and emotional well-being.
- The District, at the time of this report, has successfully implemented a return to learn plan for in person instruction and remote learning in accordance to Governor Gretchen Whitmer's MI Safe Schools: Michigan 2020-2021 Return to School Roadmap.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Morenci Area Schools, 788 E. Coomer Street, Morenci, MI 49256.

BASIC FINANCIAL STATEMENTS

**MORENCI AREA SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2020**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,179,744
Receivables	
Accounts receivable	23,183
Intergovernmental receivable	1,189,124
Inventories	12,786
Capital assets not being depreciated	351,668
Capital assets, net of accumulated depreciation	<u>10,216,448</u>
TOTAL ASSETS	<u>12,972,953</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net of amortization	138,933
Related to pensions	3,517,204
Related to other postemployment benefits	<u>947,526</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,603,663</u>
LIABILITIES	
Accounts payable	113,805
Note payable	75,840
Accrued interest	52,695
Accrued salaries and related items	366,129
Accrued retirement	162,615
Unearned revenue	93,145
Noncurrent liabilities	
Due within one year	870,807
Due in more than one year	9,555,213
Net pension liability	12,116,076
Net other postemployment benefits liability	<u>2,556,407</u>
TOTAL LIABILITIES	<u>25,962,732</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	633,918
Related to other postemployment benefits	1,180,571
Related to state aid funding for pension	<u>394,854</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,209,343</u>
NET POSITION	
Net investment in capital assets	492,009
Restricted for debt service	101,125
Unrestricted	<u>(11,188,593)</u>
TOTAL NET POSITION	<u><u>\$ (10,595,459)</u></u>

See notes to financial statements.

**MORENCI AREA SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 4,922,686	\$ -	\$ 948,888	\$ (3,973,798)
Support services	2,790,104	32,363	233,467	(2,524,274)
Intergovernmental	14,775	-	-	(14,775)
Food services	504,312	63,573	571,893	131,154
Interest on long-term debt	344,817	-	-	(344,817)
Total governmental activities	<u>\$ 8,576,694</u>	<u>\$ 95,936</u>	<u>\$ 1,754,248</u>	<u>(6,726,510)</u>
General revenues				
Property taxes, levied for general purposes				694,606
Property taxes, levied for debt service				1,091,780
State sources				4,282,814
Intermediate sources				409,858
Investment earnings				8,040
Other				<u>63,784</u>
Total general revenues				<u>6,550,882</u>
CHANGE IN NET POSITION				(175,628)
NET POSITION, beginning of year				<u>(10,419,831)</u>
NET POSITION, end of year				<u><u>\$ (10,595,459)</u></u>

See notes to financial statements.

**MORENCI AREA SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	General Fund	Special Revenue Fund - Food Service	Debt Service Fund - 2017 Refunding	Debt Service Fund - 2013 Building and Site	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 745,454	\$ 282,589	\$ 62,829	\$ 88,872	\$ 1,179,744
Receivables					
Accounts receivable	22,116	1,067	-	-	23,183
Due from other funds	28,081	88,780	-	-	116,861
Intergovernmental	1,189,124	-	-	-	1,189,124
Inventories	-	12,786	-	-	12,786
TOTAL ASSETS	\$ 1,984,775	\$ 385,222	\$ 62,829	\$ 88,872	\$ 2,521,698
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Payables					
Accounts payable	\$ 112,148	\$ 1,657	\$ -	\$ -	\$ 113,805
Due to other funds	88,780	25,000	-	3,081	116,861
Notes payable	75,840	-	-	-	75,840
Accrued interest	5,200	-	-	-	5,200
Accrued salaries and related items	352,327	13,802	-	-	366,129
Accrued retirement	156,216	6,399	-	-	162,615
Unearned revenue	82,473	10,672	-	-	93,145
TOTAL LIABILITIES	872,984	57,530	-	3,081	933,595
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	47,456	-	-	-	47,456
FUND BALANCES					
Nonspendable					
Inventories	-	12,786	-	-	12,786

See notes to financial statements.

	General Fund	Special Revenue Fund - Food Service	Debt Service Fund - 2017 Refunding	Debt Service Fund - 2013 Building and Site	Total Governmental Funds
FUND BALANCES (continued)					
Restricted for:					
Debt service	\$ -	\$ -	\$ 62,829	\$ 85,791	\$ 148,620
Food service	-	314,906	-	-	314,906
Assigned for subsequent year expenditures	518,068	-	-	-	518,068
Unassigned	546,267	-	-	-	546,267
TOTAL FUND BALANCES	1,064,335	327,692	62,829	85,791	1,540,647
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,984,775	\$ 385,222	\$ 62,829	\$ 88,872	\$ 2,521,698
Total governmental fund balances					\$ 1,540,647
Amounts reported for governmental activities in the statement of net position are different because:					
Deferred charge on refunding, net of amortization				\$ 138,933	
Deferred outflows of resources - related to pensions				3,517,204	
Deferred inflows of resources - related to pensions				(633,918)	
Deferred outflows of resources - related to other postemployment benefits				947,526	
Deferred inflows of resources - related to other post employment benefits				(1,180,571)	
Deferred inflows of resources - related to state funding for pension				(394,854)	
					2,394,320
Capital assets used in governmental activities are not financial resources and are not reported in the funds.					
The cost of the capital assets is				22,122,685	
Accumulated depreciation is				(11,554,569)	
					10,568,116
Revenue not recorded in the funds due to not being collected until after September 1st.					
Unavailable revenue - special education claims					47,456
Long-term liabilities are not due and payable in the current period and are not reported in the funds.					
Long-term debt obligation					(10,387,096)
Compensated absences					(38,924)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid					(47,495)
Net pension liability					(12,116,076)
Net other postemployment benefits liability					(2,556,407)
Net position of governmental activities					<u>\$ (10,595,459)</u>

See notes to financial statements.

MORENCI AREA SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General Fund	Special Revenue Fund - Food Service	Debt Service Fund - 2017 Refunding	Debt Service Fund - 2013 Building and Site	Total Governmental Funds
REVENUES					
Local sources					
Property taxes	\$ 694,606	\$ -	\$ 895,236	\$ 196,544	\$ 1,786,386
Food service	-	63,573	-	-	63,573
Investment earnings	5,151	-	2,369	520	8,040
Other	95,496	-	-	-	95,496
Total local sources	795,253	63,573	897,605	197,064	1,953,495
State sources	5,325,348	34,371	4,151	912	5,364,782
Federal sources	106,065	537,522	-	-	643,587
Intermediate school districts	406,760	-	-	-	406,760
TOTAL REVENUES	6,633,426	635,466	901,756	197,976	8,368,624
EXPENDITURES					
Current					
Instruction	4,024,653	-	-	-	4,024,653
Supporting services	2,505,874	-	-	-	2,505,874
Food service activities	-	476,556	-	-	476,556
Intergovernmental	14,775	-	-	-	14,775

See notes to financial statements.

	General Fund	Special Revenue Fund - Food Service	Debt Service Fund - 2017 Refunding	Debt Service Fund - 2013 Building and Site	Total Governmental Funds
EXPENDITURES (continued)					
Debt service					
Principal repayment	\$ 8,022	\$ -	\$ 720,000	\$ 110,000	\$ 838,022
Interest	5,833	-	214,650	95,219	315,702
Other	-	-	623	27	650
TOTAL EXPENDITURES	6,559,157	476,556	935,273	205,246	8,176,232
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	74,269	158,910	(33,517)	(7,270)	192,392
OTHER FINANCING SOURCES (USES)					
Transfers in	25,000	-	-	-	25,000
Transfers out	-	(25,000)	-	-	(25,000)
Proceeds from sale of capital asset	651	-	-	-	651
TOTAL OTHER FINANCING SOURCES (USES)	25,651	(25,000)	-	-	651
NET CHANGE IN FUND BALANCES	99,920	133,910	(33,517)	(7,270)	193,043
FUND BALANCES					
Beginning of year	964,415	193,782	96,346	93,061	1,347,604
End of year	\$ 1,064,335	\$ 327,692	\$ 62,829	\$ 85,791	\$ 1,540,647

See notes to financial statements.

MORENCI AREA SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Net change in fund balances total governmental funds **\$ 193,043**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(521,793)
Loss on disposal of capital assets	(1,400)
Capital outlay	9,600

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.

Accrued interest payable, beginning of the year	51,645
Accrued interest payable, end of the year	(47,495)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Interest on school loan revolving fund	(42,308)
Payments on debt	838,022
Amortization of bond premiums	29,328
Amortization of bond discounts	(1,964)
Amortization of deferred charge on refunding	(18,321)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available.

Unavailable revenue, beginning of year	(44,358)
Unavailable revenue, end of year	47,456

Compensated absences are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds.

Accrued compensated absences, beginning of the year	45,839
Accrued compensated absences, end of the year	(38,924)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Pension related items	(909,787)
Other postemployment benefits items	207,096

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other post employment benefits contributions subsequent to the measurement period.

State aid funding, beginning of year	423,547
State aid funding, end of year	(394,854)

Change in net position of governmental activities	<u>\$ (175,628)</u>
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**MORENCI AREA SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2020**

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 94,233</u>
LIABILITIES	
Due to student and other groups	<u>\$ 94,233</u>

MORENCI AREA SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

Reporting Entity

The Morenci Area Schools (the "District") is governed by the Morenci Area Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financials.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following *major governmental funds*:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Food Service Fund* is a special revenue fund that accounts for federal, state, and local sources that are legally restricted to expenditures for providing meals to District students and faculty.

The *2017 Refunding Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt used to refund the 2005 and 2008 general obligation bonds.

The *2013 Building and Site Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The fiduciary funds financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for the recognition of certain liabilities to the beneficiaries of a fiduciary activity. Liabilities to beneficiaries are recognized when an event has occurred that compels the District to disburse fiduciary resources.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund and special revenue fund are noted in the required supplementary information section.
- d. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- e. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2020. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

In accordance with Michigan Compiled Laws, the District is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Cash and Cash Equivalents (continued)

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Capital Assets (continued)

Land and construction in progress, if any, are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	20
Building and additions	20 - 50
Equipment and furniture	5 - 20
Transportation equipment	5 - 10

Defined Benefit Plans

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding and pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Deferred Inflows (continued)

The District has four items that qualifies for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary. The fourth item arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year-end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

In the computation of net invested in capital assets, school bond revolving fund principal proceeds of \$1,187,419 are considered capital-related debt. Accrued interest on the school bond loan fund of \$172,056 has been included in the balance of long-term debt and in the calculation of unrestricted net position.

Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before any of the components of unrestricted fund balance. When the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies (continued)

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2020, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund	
PRE, Non-PRE, Commercial Personal Property	7.96

Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations, or retirements.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses (continued)

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2020, the District had no investments. The District had deposits subject to the following risk:

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2020, \$980,926 of the District's bank balance of \$1,480,926 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$1,273,977.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Interest Rate Risk

In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Fair Value Measurement

The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note 1.

The following summarizes the categorization of these amounts as of June 30, 2020:

Custodial fund	
Cash and cash equivalents	\$ 94,233
District-wide	
Cash and cash equivalents	<u>1,179,744</u>
	<u><u>\$ 1,273,977</u></u>

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2020 consist of the following:

	Government- wide
State aid	\$ 851,535
Federal revenue	175,878
Intermediate school district	161,711
	<u>\$ 1,189,124</u>

Intergovernmental receivables include amounts due from federal, state and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Assets not being depreciated				
Land	\$ 351,668	\$ -	\$ -	\$ 351,668
Other capital assets				
Land improvements	255,164	-	-	255,164
Building and additions	16,121,561	-	-	16,121,561
Equipment and furniture	4,546,956	9,600	10,000	4,546,556
Transportation equipment	877,146	-	29,410	847,736
Subtotal	<u>21,800,827</u>	<u>9,600</u>	<u>39,410</u>	<u>21,771,017</u>
Accumulated depreciation				
Land improvements	54,254	12,758	-	67,012
Building and additions	6,485,730	275,602	-	6,761,332
Equipment and furniture	3,939,889	162,700	10,000	4,092,589
Transportation equipment	590,913	70,733	28,010	633,636
Total accumulated depreciation	<u>11,070,786</u>	<u>521,793</u>	<u>38,010</u>	<u>11,554,569</u>
Net capital assets being depreciated	<u>10,730,041</u>	<u>(512,193)</u>	<u>1,400</u>	<u>10,216,448</u>
Net governmental capital assets	<u>\$ 11,081,709</u>	<u>\$ (512,193)</u>	<u>\$ 1,400</u>	<u>\$ 10,568,116</u>

Depreciation for the fiscal year ended June 30, 2020 amounted to \$521,793 which was allocated in the following manner:

Instruction	\$ 410,861
Support services	110,932
	<u>\$ 521,793</u>

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2020, the District issued a state aid anticipation note payable in the amount of \$400,000 (Note 2019 A-1), which has an interest rate of 1.30%, and matures August 20, 2020. Proceeds of the note were used to fund school operations. The note is secured by the full faith and credit of the District as well as pledged state aid. The note required payments to an irrevocable set-aside account of \$324,160 at June 30, 2020. At year-end the balance of these payments are considered defeased debt and are not included in the year-end balance. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. Activity for the year ended June 30, 2020 is as follows:

Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
\$ 51,143	\$ 400,000	\$ 375,303	\$ 75,840

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of the long-term debt obligations for the District for the year ended June 30, 2020:

	General Obligation Bonds	Notes from Direct Borrowings and Direct Placements	Compensated Absences	Total
Balance July 1, 2019	\$ 9,868,941	\$ 1,341,233	\$ 45,839	\$ 11,256,013
Additions	-	42,308	-	42,308
Deletions	(857,364)	(8,022)	(6,915)	(872,301)
Balance June 30, 2020	9,011,577	1,375,519	38,924	10,426,020
Due within one year	(855,000)	(8,022)	(7,785)	(870,807)
Due in more than one year	\$ 8,156,577	\$ 1,367,497	\$ 31,139	\$ 9,555,213

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

Long-term obligations at June 30, 2020 is comprised of the following issues:

General Obligation Bonds

2013 serial bonds due in annual installments of \$120,000 to \$250,000 through May 1, 2033 with interest from 3.00% to 4.50%.	\$ 2,380,000
2017 serial bonds due in annual installments of \$735,000 to \$870,000 through May 1, 2028 with interest of 3.00%.	6,435,000
Add issuance premiums	224,845
Less issuance discounts	<u>(28,268)</u>
Total general obligation bonds	<u>9,011,577</u>

Notes from Direct Borrowings and Direct Placements

2019 installment purchase agreement due in annual installments of \$8,022 through October 23, 2021 with interest of 2.85%.	16,044
Borrowings from the State of Michigan under the School Loan Revolving Fund, inclusive of interest. Interest at June 30, 2020 was 3.12%.	<u>1,359,475</u>
Total notes from direct borrowings:	<u>1,375,519</u>
Total general obligation bonds and notes from direct borrowings and direct placements	10,387,096
Compensated absences	<u>38,924</u>
Total long-term obligations	<u><u>\$ 10,426,020</u></u>

The District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$16,044 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2020, \$12,320,000 of bonds outstanding are considered defeased.

MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

Borrowing from the State of Michigan - The school loan revolving fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. The interest rate at June 30, 2020 was 3.12%. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.96 mills. The School District is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. The District currently levies 7.96 debt mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the following amortization schedule. The State may apply a default late charge on the note if the District does not make the repayments, or apply the default late charge if the District fails to levy the appropriate debt mills. The State may also withhold state aid payments if the District is in default.

The annual requirements to amortize long-term obligations outstanding exclusive of school loan revolving fund and compensated absences payments as of June 30, 2020, including interest of \$1,670,121, are as follows:

Year Ending June 30,	General Obligation Bonds		Notes from Direct Borrowings and Direct Placements		Compensated Absences	Total
	Principal	Interest	Principal	Interest		
2021	\$ 855,000	\$ 284,968	\$ 8,022	\$ 465	\$ -	\$ 1,148,455
2022	880,000	259,318	8,022	232	-	1,147,572
2023	905,000	232,918	-	-	-	1,137,918
2024	935,000	205,768	-	-	-	1,140,768
2025	965,000	177,356	-	-	-	1,142,356
2026 - 2030	3,525,000	442,838	-	-	-	3,967,838
2031 - 2034	750,000	66,258	-	-	-	816,258
	8,815,000	1,669,424	16,044	697	-	10,501,165
Issuance premiums	224,845	-	-	-	-	224,845
Issuance discounts	(28,268)	-	-	-	-	(28,268)
School Loan						
Revolving Fund	-	-	1,187,419	172,056	-	1,359,475
Compensated absences	-	-	-	-	38,924	38,924
	<u>\$ 9,011,577</u>	<u>\$ 1,669,424</u>	<u>\$ 1,203,463</u>	<u>\$ 172,753</u>	<u>\$ 38,924</u>	<u>\$ 12,096,141</u>

Interest expense (all funds) for the year ended June 30, 2020 was approximately \$345,000.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2020 are as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
Food service	\$ 88,780	General fund	\$ 88,780
General fund	28,081	Food service	25,000
		2013 debt fund	3,081
	<u>\$ 116,861</u>		<u>\$ 116,861</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/orschools.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State of Michigan Investment Board serves as the investment fiduciary and custodian for the System.

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPSERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Pension

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPERS) who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below:

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 (continued)

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 plan will close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law included other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees' Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Regular Retirement (No Reduction Factor For Age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the Defined Contribution plan are not required to make additional contributions.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits and OPEB. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

Pension and OPEB contributions made in the fiscal year ending September 30, 2019 were determined as of the September 30, 2016 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2016 are amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefit
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%

The District's pension contributions for the year ended June 30, 2020 were equal to the required contribution total. Total pension contributions were approximately \$1,009,000. Of the total pension contributions approximately \$990,000 was contributed to fund the Defined Benefit Plan and approximately \$19,000 was contributed to fund the Defined Contribution Plan.

The District's OPEB contributions for the year ended June 30, 2020 were equal to the required contribution total. Total OPEB contributions were approximately \$304,000. Of the total OPEB contributions approximately \$281,000 was contributed to fund the Defined Benefit Plan and approximately \$23,000 was contributed to fund the Defined Contribution Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities

The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

<u>MPERS (Plan) Non-university Employers</u>	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Total pension liability	\$ 83,442,507,212	\$ 79,863,694,444
Plan fiduciary net position	\$ 50,325,869,388	\$ 49,801,889,205
Net pension liability	\$ 33,116,637,824	\$ 30,061,805,239
Proportionate share	0.03659%	0.03683%
Net pension liability for the District	\$ 12,116,076	\$ 11,070,512

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the District recognized pension expense of \$1,899,711

At June 30, 2020, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 2,372,336	\$ -
Net difference between projected and actual plan investment earnings	-	(388,300)
Differences between expected and actual experience	54,308	(50,523)
Changes in proportion and differences between employer contributions and proportionate share of contributions	161,079	(195,095)
Reporting Unit's contributions subsequent to the measurement date	929,481	-
	<u>\$ 3,517,204</u>	<u>\$ (633,918)</u>

MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

\$929,481, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2021	\$ 740,507
2022	637,409
2023	420,739
2024	155,150

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Liabilities

The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

<u>MPERS (Plan) Non-university Employers</u>	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Total other postemployment benefit liability	\$ 13,925,860,688	\$ 13,932,170,264
Plan fiduciary net position	\$ 6,748,112,668	\$ 5,983,218,473
Net other postemployment benefit liability	\$ 7,177,748,020	\$ 7,948,951,791
Proportionate share	0.03562%	0.03819%
Net other postemployment benefit liability for the District	\$ 2,556,407	\$ 3,035,570

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of \$74,012.

At June 30, 2020, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 553,922	\$ -
Net difference between projected and actual plan investment earnings	-	(44,457)
Differences between expected and actual experience	-	(938,018)
Changes in proportion and differences between employer contributions and proportionate share of contributions	138,483	(198,096)
Reporting Unit's contributions subsequent to the measurement date	255,121	-
	<u>\$ 947,526</u>	<u>\$ (1,180,571)</u>

\$255,121, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30,	Amount
2021	\$ (123,002)
2022	(123,002)
2023	(100,918)
2024	(81,042)
2025	(60,202)

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions

Investment Rate of Return for Pension - 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic and Pension Plus groups and 6.00% a year, compounded annually net of investment and administrative expenses for Pension Plus 2 Plan.

Investment Rate of Return for OPEB - 6.95% a year, compounded annually net of investment and administrative expenses.

Salary Increases - The rate of pay increase used for individual members is 2.75%.

Inflation - 3.0%.

Mortality Assumptions:

Retirees - RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active - RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees - RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Experience Study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2018. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2017 valuation.

The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments - The pension rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Cost of Living Pension Adjustments - 3.0% annual non-compounded for MIP members.

Healthcare Cost Trend Rate for Other Postemployment Benefit - 7.5% for year one and graded to 3.5% in year twelve.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Additional Assumptions for Other Postemployment Benefit Only - Applies to individuals hired before September 4, 2012:

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement - 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

The target asset allocation at September 30, 2019 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0%	8.6%
International Equity Pools	16.0%	7.3%
Fixed Income Pools	10.5%	1.2%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.4%
Short Term Investment Pools	2.0%	0.8%
	<u>100.00%</u>	

* Long term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return - For fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Discount Rate - A single discount rate of 6.80% was used to measure the total pension liability (6.00% for the Pension Plus 2 Plan). This discount rate was based on the expected rate of return on pension plan investments of 6.80% (6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

OPEB Discount Rate - A single discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 6.80% (6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net pension liability	\$ 15,751,674	\$ 12,116,076	\$ 9,102,040

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 6.95%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 3,135,818	\$ 2,556,407	\$ 2,069,864

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Other Postemployment Benefit		
	Current		
	1% Trend Decrease	Healthcare Cost Trend Rates	1% Trend Decrease
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 2,049,236	\$ 2,556,407	\$ 3,135,749

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2019 Comprehensive Annual Financial Report.

Payable to the Pension and OPEB Plan - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 10 - TAX ABATEMENTS

The District receives reduced property tax revenues as a result of Industrial Facilities Tax (IFT) exemptions, and the Commercial Rehabilitation Act granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The Commercial Rehabilitation Act offers owners of certain rehabilitated commercial facilities in certain districts property tax abatement for up to ten years. The property taxes abated for all funds by municipality under these programs are as follows:

<u>Municipality</u>	<u>Type</u>	<u>Taxes Abated</u>
City of Morenci	IFT	\$ 6,056
City of Morenci	Commercial Rehabilitation	1,454
		<u>\$ 7,510</u>

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's Section 22 funding of the State School Aid Act.

There are no significant abatements made by the District.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - TRANSFERS

The transfer of \$25,000 from the food service fund to the general fund was for indirect costs.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 13 - SUBSEQUENT EVENT

The District has approved borrowing \$750,000 for fiscal year 2020-2021 to replace the note payable as described in Note 5.

NOTE 14 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2022 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

**MORENCI AREA SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 620,300	\$ 797,933	\$ 795,253	\$ (2,680)
State sources	5,661,323	5,423,794	5,325,348	(98,446)
Federal sources	165,000	105,585	106,065	480
Intermediate school districts	335,000	416,330	406,760	(9,570)
TOTAL REVENUES	6,781,623	6,743,642	6,633,426	(110,216)
EXPENDITURES				
Current				
Instruction				
Basic programs	3,202,644	3,315,380	3,197,992	117,388
Added needs	838,908	830,918	826,661	4,257
Total instruction	4,041,552	4,146,298	4,024,653	121,645
Supporting services				
Pupil	242,429	216,594	218,172	(1,578)
Instructional staff	10,000	18,211	12,520	5,691
General administration	192,877	172,097	153,795	18,302
School administration	419,654	437,753	436,930	823
Business	202,520	177,391	216,155	(38,764)
Operation/maintenance	885,716	820,824	769,611	51,213
Pupil transportation	400,287	336,192	333,236	2,956
Athletics	225,000	221,326	220,034	1,292
Other	137,934	144,272	145,421	(1,149)
Total supporting services	2,716,417	2,544,660	2,505,874	38,786
Intergovernmental expenditures	40,000	14,775	14,775	-
Debt service				
Principal payments	8,454	8,655	8,022	633
Interest	5,200	5,200	5,833	(633)
Total debt service	13,654	13,855	13,855	-
TOTAL EXPENDITURES	6,811,623	6,719,588	6,559,157	160,431
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(30,000)	24,054	74,269	50,215
OTHER FINANCING SOURCES (USES)				
Transfers in	-	25,000	25,000	-
Proceeds from sale of capital asset	-	651	651	-
TOTAL OTHER FINANCING SOURCES (USES)	-	25,651	25,651	-
NET CHANGE IN FUND BALANCE	\$ (30,000)	\$ 49,705	99,920	\$ 50,215
FUND BALANCE				
Beginning of year			964,415	
End of year			<u>\$ 1,064,335</u>	

**MORENCI AREA SCHOOLS
BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources				
Food sales	\$ 91,021	\$ 63,575	\$ 63,573	\$ (2)
Investment earnings	10	-	-	-
State sources	24,092	31,577	34,371	2,794
Federal sources	336,266	533,897	537,522	3,625
TOTAL REVENUES	451,389	629,049	635,466	6,417
EXPENDITURES				
Current				
Supporting services				
Salaries	132,363	133,015	133,013	2
Benefits	67,620	70,614	73,407	(2,793)
Contracted services	3,983	1,058	2,792	(1,734)
Supplies and other	11,693	4,280	3,396	884
Food	216,226	270,970	254,627	16,343
Non-food	15,439	10,341	5,621	4,720
Capital outlay	4,710	5,108	3,700	1,408
TOTAL EXPENDITURES	452,034	495,386	476,556	18,830
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(645)	133,663	158,910	25,247
OTHER FINANCING SOURCES (USES)				
Transfers in	645	619	-	(619)
Transfers out	-	(25,000)	(25,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	645	(24,381)	(25,000)	(619)
NET CHANGE IN FUND BALANCE	\$ -	\$ 109,282	133,910	\$ 24,628
FUND BALANCE				
Beginning of year			193,782	
End of year			\$ 327,692	

**MORENCI AREA SCHOOLS
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	2019	2018	2017	2016	2015	2014
Reporting Unit's proportion of net pension liability (%)	0.03659%	0.03683%	0.03563%	0.03670%	0.03772%	0.03506%
Reporting Unit's proportionate share of net pension liability	\$ 12,116,076	\$ 11,070,512	\$ 9,234,520	\$ 9,157,557	\$ 9,214,239	\$ 7,723,408
Reporting Unit's covered-employee payroll	\$ 3,134,552	\$ 3,126,117	\$ 2,977,878	\$ 3,088,870	\$ 3,205,512	\$ 3,298,462
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	386.53%	354.13%	310.10%	296.47%	287.45%	234.15%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**MORENCI AREA SCHOOLS
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 989,923	\$ 957,922	\$ 939,294	\$ 793,769	\$ 793,074	\$ 668,890
Contributions in relation to statutorily required contributions	<u>989,923</u>	<u>957,922</u>	<u>939,294</u>	<u>793,769</u>	<u>793,074</u>	<u>668,890</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting Unit's covered-employee payroll	\$ 3,270,698	\$ 3,108,995	\$ 3,245,085	\$ 3,099,358	\$ 3,179,014	\$ 3,533,562
Contributions as a percentage of covered-employee payroll	30.27%	30.81%	28.95%	25.61%	24.95%	18.93%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**MORENCI AREA SCHOOLS
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Reporting Unit's proportion of net OPEB liability (%)	0.03562%	0.03819%	0.03585%
Reporting Unit's proportionate share of net OPEB liability	\$ 2,556,407	\$ 3,035,570	\$ 3,174,259
Reporting Unit's covered-employee payroll	\$ 3,134,552	\$ 3,126,117	\$ 2,977,878
Reporting Unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	81.56%	97.10%	106.59%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	48.46%	42.95%	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

MORENCI AREA SCHOOLS
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 281,108	\$ 254,984	\$ 266,279
Contributions in relation to statutorily required contributions	<u>281,108</u>	<u>254,984</u>	<u>266,279</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting Unit's covered-employee payroll	\$ 3,270,698	\$ 3,108,995	\$ 3,245,085
Contributions as a percentage of covered-employee payroll	8.59%	8.20%	8.21%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**MORENCI AREA SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2020**

NOTE 1 - PENSION INFORMATION

Benefit changes - there were no changes of benefit terms in 2019.

Changes of assumptions - the assumption changes for 2019 were:

Discount rate for MIP and Basic plans decreased to 6.80% from 7.05%.

Discount rate for Pension Plus decreased to 6.80% from 7.05%.

NOTE 2 - OPEB INFORMATION

Benefit changes - there were no changes of benefit terms in 2019.

Changes of assumptions - the assumption changes for 2019 were:

Discount rate decreased to 6.95% from 7.15%.

Healthcare cost trend rate increased to 7.50% Year 1 graded to 3.50% Year 12 from 7.50% Year 1 graded to 3.00% Year 12.

ADDITIONAL SUPPLEMENTARY INFORMATION

MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2020

\$2,960,000 School Building and Site Bonds issued in 2013:

Principal Due May 1,	Interest Due		Debt Service Requirement for Fiscal Year	
	May 1,	November 1,	June 30,	Amount
\$ 120,000	\$ 45,959	\$ 45,959	2021	\$ 211,918
130,000	44,159	44,159	2022	218,318
135,000	42,209	42,209	2023	219,418
145,000	40,184	40,184	2024	225,368
155,000	37,828	37,828	2025	230,656
155,000	35,213	35,213	2026	225,426
155,000	32,403	32,403	2027	219,806
185,000	29,303	29,303	2028	243,606
225,000	25,603	25,603	2029	276,206
225,000	21,047	21,047	2030	267,094
250,000	16,406	16,406	2031	282,812
250,000	11,093	11,093	2032	272,186
250,000	5,630	5,630	2033	261,260
<u>\$ 2,380,000</u>	<u>\$ 387,037</u>	<u>\$ 387,037</u>		<u>\$ 3,154,074</u>

The bonds were approved by the Board of Education to be used for the purpose of partially remodeling, furnishing and refurbishing, equipping and re-equipping school facilities; acquiring, installing and equipping educational technology; purchasing school buses; constructing, equipping, developing and improving athletic facilities and play fields; and developing and improving sites. The bonds will carry interest rates from 3.00% to 4.50%.

MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2020

\$8,460,000 Refunding Bonds issued in 2017:

Principal Due May 1,	Interest Due		Debt Service Requirement for Fiscal Year	
	May 1,	November 1,	June 30,	Amount
\$ 735,000	\$ 96,525	\$ 96,525	2021	\$ 928,050
750,000	85,500	85,500	2022	921,000
770,000	74,250	74,250	2023	918,500
790,000	62,700	62,700	2024	915,400
810,000	50,850	50,850	2025	911,700
840,000	38,700	38,700	2026	917,400
870,000	26,100	26,100	2027	922,200
870,000	13,050	13,050	2028	896,100
<u>\$ 6,435,000</u>	<u>\$ 447,675</u>	<u>\$ 447,675</u>		<u>\$ 7,330,350</u>

The bonds were approved by the Board of Education to be used for the purpose of refunding all or a portion of the District's outstanding 2005 refunding bonds and 2008 building and site bonds. The bonds will carry an interest rate of 3.00%.

**MORENCI AREA SCHOOLS
SCHEDULE OF DIRECT BORROWING
REPAYMENT REQUIREMENTS
JUNE 30, 2020**

\$24,066 Installment Purchase Agreement issued in 2019:

	Principal Due	Interest Due	Debt Service Requirement for Fiscal Year	
	October 23,	October 23,	June 30,	Amount
2020	\$ 8,022	\$ 465	2021	\$ 8,487
2021	8,022	232	2022	8,254
	<u>\$ 16,044</u>	<u>\$ 697</u>		<u>\$ 16,741</u>

The installment purchase agreement was approved by the Board of Education to be used for the purpose of purchasing a bus for the District. The agreement will carry an interest rate of 2.85%.

**MORENCI AREA SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL LOAN REVOLVING FUND
JUNE 30, 2020**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

<u>Year Ended June 30,</u>	<u>Loan Proceeds</u>	<u>Interest Expense</u>	<u>Loan Balance (Net Change)</u>
2013	\$ 92,137	\$ 2,027	\$ 94,164
2014	-	3,325	3,325
2015	343,120	9,826	352,946
2016	276,245	20,350	296,595
2017	152,414	27,042	179,456
2018	81,615	29,628	111,243
2019	241,888	37,550	279,438
2020	-	42,308	42,308
Totals	<u>\$ 1,187,419</u>	<u>\$ 172,056</u>	<u>\$ 1,359,475</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Morenci Area Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morenci Area Schools as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Morenci Area Schools' basic financial statements and have issued our report thereon dated October 1, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morenci Area Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morenci Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Morenci Area Schools' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morenci Area Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costerian PC

October 1, 2020

October 1, 2020

To the Board of Education
Morenci Area Schools

In planning and performing our audit of the financial statements of Morenci Area Schools as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Morenci Area Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies have been identified. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 1, 2020 on the financial statements of Morenci Area Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Segregation of Duties

We commend the District for continued improvement in this area. During the fiscal year 2018 audit, we noted that the additional staff member that was added was departing with no clear replacement. During the fiscal year 2019 audit, we found that this staff member was reduced to part time in the business office rather than leaving the position. There has been no change to staffing for the fiscal year 2020 audit. With a limited staff in the business office, it is inherently difficult to achieve adequate segregation of duties.

We recommend continuing to provide support to the business office in order to maintain adequate segregation of duties.

Food Service Fund Balance

Per Michigan Department of Education (MDE) guidelines, school food authorities (SFA) must operate food services on a nonprofit basis. During our audit procedures in fiscal year 2018, we noted that the fund balance of Morenci Area Schools' food service fund exceeded the maximum set by the USDA, which is three months' average operating expenditures. As of June 30, 2020, the food service fund balance still exceeded the maximum by \$170,073. Due to the impact of COVID-19, the District applied for and received a carryover extension from MDE through fiscal year 2021. MDE requires that the SFA spend down the excess by the end of the next school year.

We recommend that Morenci Area Schools make an effort to spend down the excess by June 30, 2021. One method to ensure that the balance is paid down is to fully utilize the maximum allowable indirect cost rate. A transfer was made for fiscal year 2020, but the budgeted amount was less than the maximum allowable. We recommend that a calculation of the maximum allowable be performed prior to the final budget amendment of fiscal year 2021 to transfer the greatest amount possible.

Athletics Controls

During the review of internal control procedures in fiscal year 2019, one of the areas we focused on were the controls surrounding athletic events. We identified recommendations that could be implemented to decrease the risk of misappropriation with the event funds:

Safe Controls Improvements

Currently, there are inadequate safe control procedures in the athletics department. There are no logs kept tracking when the athletics safe is opened or cash is removed or added. Cash tills for events are not signed out of the safe. The safe key is shared with other staff by the athletics director. These current practices provide an opportunity for accidental or intentional misappropriation of cash.

We recommend that when cash is removed or added to the safe, two individuals are present to count the cash and that a log is kept for documentation. Additionally, ticket-takers should sign a form stating that the starter cash that is taken will be returned in full. To properly maintain physical control over cash, the key must be kept by only the athletic director and a key business office staff member.

Ticket Booth Improvements

It is District policy to have two "ticket-takers" in each booth, but we noted that this does not occur consistently. This provides opportunity for improper handling of cash at the booths.

Sale of physical tickets is an excellent way to track the number of attendees to sporting events. There must also be a reconciliation at the end of each event to ensure that cash was collected for all tickets that were distributed and that all cash collected is being turned in to be deposited. Currently, there is not a process in place to determine number of tickets being sold at each sporting event and reconcile that number to the cash collected for deposit.

Tickets are sold at different pricing tiers for adults, students, and seniors. These tickets are sold from the same roll without tracking the number sold at each tier. First and last tickets are not being maintained and various ticket rolls are being used at different times across events. At the end of each event, the till is removed from the gate sales and the remaining cash is assumed to be gate sales.

Athletics Controls (continued)

Ticket Booth Improvements (continued)

We recommend that two “ticket takers” are present in the ticket booth at all times. Tickets could either have one price established for all tickets or a unique ticket roll could be used for each pricing tier. Also, we recommend that first and last tickets are maintained and kept with the reconciliation sheet for each roll used to ensure that cash is being collected for each ticket sold. At the end of each event, the number of tickets sold at each tier can be calculated and reconciled to the total cash collected. One person could count the cash and one person could perform the ticket reconciliation. Each person would then sign off on the ticket reconciliation. Any discrepancies should be noted and resolved immediately. The ticket reconciliation sheet should then be delivered to the business office so that it can be compared to the bank deposit.

During the fiscal year 2020 audit, we noted that these procedures were not implemented due to a delay in sports programs related to the COVID-19 pandemic. We recommend that the District consider implementing these changes for the fiscal year ended June 30, 2021.

Board Approval Threshold for Purchases

Upon review of the District accounting policies, we noted that the federal micro-purchase threshold has been increased to \$10,000 in-line with the National Defense Authorization Acts (NDAA) which is consistent with the Uniform Guidance. However, the threshold for board approval over general purchases is set at \$5,000. While the board can set their approval threshold at any level below the \$10,000 federal micro-purchase threshold, a Federal agency may require a District to adhere to the lower threshold. Additionally, there may be less administrative burden if the threshold for general purchases is increased to agree to the federal micro-purchase threshold.

We recommend the District review and update their purchasing policy to match the federal procurement policy guidelines.

This report is intended solely for the information and use of management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maney Costeiran PC

October 1, 2020

To the Board of Education
Morenci Area Schools

We have audited the financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of Morenci Area Schools for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Morenci Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2020. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability:

We evaluated the key factors and assumptions used to develop the balance of the net pension liability and net other postemployment benefit liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate in calculating the liability for employee compensated absences:

We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 1, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Morenci Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC